

SALT LAKE LEGAL DEFENDER ASSOCIATION

**FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

DECEMBER 31, 2005 AND 2004

Hansen, Bradshaw, Malmrose & Erickson

A Professional Corporation

CERTIFIED PUBLIC ACCOUNTANTS

CONTENTS

	Page
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4
STATEMENT OF FUNCTIONAL EXPENSES - 2005	5
STATEMENT OF FUNCTIONAL EXPENSES - 2004	6
STATEMENTS OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	8
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	13

Hansen, Bradshaw, Malmrose & Erickson

A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANTS

559 West 500 South
Bountiful, Utah 84010
801-296-0200
Fax 801-296-1218

Lynn Hansen, CPA
Clarke R. Bradshaw, CPA
Gary E. Malmrose, CPA
Edwin L. Erickson, CPA
Michael L. Smith, CPA

Jason L. Tanner, CPA
Robert D. Wood, CPA

Members of the
American Institute
of Certified Public
Accountants

Members of the
Private Company
Practice Section

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Salt Lake Legal Defender Association

We have audited the accompanying statements of financial position of Salt Lake Legal Defender Association (a nonprofit organization) as of December 31, 2005 and 2004, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Salt Lake Legal Defender Association as of December 31, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2006 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Hansen, Bradshaw, Malmrose & Erickson, P.C.

June 8, 2006

FINANCIAL STATEMENTS

Salt Lake Legal Defender Association

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31,

	2005	2004
Assets		
Cash and cash equivalents (Note B)	\$ 625,632	\$ 629,568
Unconditional promises to give (Note D)		
Grants from governmental agencies	8,497,050	8,020,344
Furniture and equipment, net (Note E)	349,930	242,686
Total assets	\$ 9,472,612	\$ 8,892,598
Liabilities		
Accounts payable	\$ 56,536	\$ 23,440
Accrued liabilities	410,601	386,228
Total liabilities	467,137	409,668
Commitments (Note F)	-	-
Net assets		
Unrestricted	508,425	462,586
Temporarily restricted (Note C)	8,497,050	8,020,344
Total net assets	9,005,475	8,482,930
Total liabilities and net assets	\$ 9,472,612	\$ 8,892,598

The accompanying notes are an integral part of these statements.

Salt Lake Legal Defender Association

STATEMENTS OF ACTIVITIES

Year Ended December 31,

	<u>2005</u>	<u>2004</u>
Unrestricted net assets		
Revenues and support		
Grants from governmental agencies	\$ 351,595	\$ 302,845
Interest income	35,464	25,966
Other revenue	<u>26,256</u>	<u>7,590</u>
	413,315	336,401
Net assets released from restrictions		
Grants from governmental agencies	<u>8,020,344</u>	<u>7,562,390</u>
Total unrestricted revenues and support	<u>8,433,659</u>	<u>7,898,791</u>
Expenses		
Program services		
Legal services	8,002,133	7,623,055
Support services		
General and administrative	<u>385,687</u>	<u>383,865</u>
	<u>8,387,820</u>	<u>8,006,920</u>
Increase (decrease) in unrestricted net assets	<u>45,839</u>	<u>(108,129)</u>
Temporarily restricted net assets		
Grants from governmental agencies	8,497,050	8,020,344
Net assets released from restrictions		
Expiration of time restrictions	<u>(8,020,344)</u>	<u>(7,562,390)</u>
Increase in temporarily restricted net assets	<u>476,706</u>	<u>457,954</u>
Increase in net assets	522,545	349,825
Net assets at beginning of year	<u>8,482,930</u>	<u>8,133,105</u>
Net assets at end of year	<u><u>\$ 9,005,475</u></u>	<u><u>\$ 8,482,930</u></u>

The accompanying notes are an integral part of these statements.

Salt Lake Legal Defender Association

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2005

	Program Services	Support Services	
	Legal Services	General and Administrative	Total
Compensation and related expenses			
Compensation	\$ 5,143,235	\$ 259,347	\$ 5,402,582
Employee benefits			
Retirement	519,382	26,190	545,572
Medical	736,081	37,117	773,198
Payroll taxes	373,000	18,808	391,808
	6,771,698	341,462	7,113,160
Conferences and training	50,261	-	50,261
Depreciation	111,499	5,622	117,121
Dues	26,335	-	26,335
Insurance			
Property and casualty	16,863	850	17,713
Professional	17,700	-	17,700
Library	68,421	-	68,421
Litigation expenses	190,646	-	190,646
Office supplies	154,608	7,796	162,404
Professional services	15,470	780	16,250
Rent and janitorial expenses	484,568	24,434	509,002
Telephone	44,601	2,249	46,850
Travel	48,299	2,435	50,734
Other	1,164	59	1,223
	<u>\$ 8,002,133</u>	<u>\$ 385,687</u>	<u>\$ 8,387,820</u>

The accompanying notes are an integral part of these statements.

Salt Lake Legal Defender Association

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2004

	Program Services	Support Services	
	Legal Services	General and Administrative	Total
Compensation and related expenses			
Compensation	\$ 4,838,252	\$ 256,248	\$ 5,094,500
Employee benefits			
Retirement	476,088	25,215	501,303
Medical	667,799	35,138	702,937
Payroll taxes	343,566	18,197	361,763
	6,325,705	334,798	6,660,503
Conferences and training	58,867	-	58,867
Depreciation	128,987	6,832	135,819
Dues	22,860	-	22,860
Insurance			
Property and casualty	16,985	900	17,885
Professional	17,980	-	17,980
Library	71,841	-	71,841
Litigation expenses	199,350	-	199,350
Office supplies	181,703	9,624	191,327
Professional services	15,775	835	16,610
Rent and janitorial expenses	483,027	25,582	508,609
Telephone	41,421	2,194	43,615
Travel	58,345	3,090	61,435
Other	209	10	219
	<u>\$ 7,623,055</u>	<u>\$ 383,865</u>	<u>\$ 8,006,920</u>

The accompanying notes are an integral part of these statements.

Salt Lake Legal Defender Association

STATEMENTS OF CASH FLOWS

Year Ended December 31,

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Increase in net assets	\$ 522,545	\$ 349,825
Adjustments to reconcile increase in net assets to net assets provided by operating activities		
Depreciation	117,121	135,819
Loss on disposal of furniture and equipment	717	-
Changes in assets and liabilities		
Unconditional promises to give	(476,706)	(457,954)
Prepaid expenses	-	1,838
Accounts payable	33,096	(9,954)
Accrued liabilities	24,373	130,402
	<u>221,146</u>	<u>149,976</u>
Net cash provided by operating activities		
Cash flows used in investing activities		
Acquisition of property and equipment	(225,082)	(75,694)
	<u>(225,082)</u>	<u>(75,694)</u>
Net cash used in investing activities		
Net increase (decrease) in cash and cash equivalents	(3,936)	74,282
Cash and cash equivalents at beginning of year	<u>629,568</u>	<u>555,286</u>
Cash and cash equivalents at end of year	<u><u>\$ 625,632</u></u>	<u><u>\$ 629,568</u></u>

The accompanying notes are an integral part of these statements.

Salt Lake Legal Defender Association

NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

NOTE A - SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. History and organization activity

Salt Lake Legal Defender Association (the Association) was established in 1964 as an independent non-profit corporation for the purpose of contracting with Salt Lake County and cities within the County to provide legal defense for those who are financially unable to employ private legal counsel. Vacancies in the Board of Directors are filled by majority vote of the remaining Board members.

2. Promises to give

Grants and contributions are recognized when the grantor or donor makes a promise to give to the Association that is, in substance, unconditional. Grants and contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. Grants and contributions are reported as increases in temporarily or permanently restricted net assets when restrictions are imposed by grantors or donors. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. There are currently no permanently restricted net assets.

3. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

4. Furniture and equipment

Depreciation of furniture and equipment is provided by the straight-line method over estimated lives of 5 years. Maintenance and repairs which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred.

5. Financial statement presentation

The Association reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Salt Lake Legal Defender Association

NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

6. Grants and Contributions

Grants and contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any grantor or donor restrictions.

7. Cash equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

8. Income taxes

The Association is exempt from federal income taxes as a non-profit organization under Section 501(c)(3) of the Internal Revenue Code.

NOTE B - CONCENTRATIONS OF CREDIT RISK

The Association maintains its cash balances in one financial institution located in Salt Lake City, Utah. These balances are insured by the Federal Deposit Insurance Corporation up to \$200,000. At December 31, 2005, the Company's uninsured balances (including outstanding checks) totaled \$678,644.

NOTE C - RESTRICTIONS ON ASSETS

In 2005 and 2004, temporarily restricted net assets consist entirely of amounts that are available for subsequent periods.

Net assets released from restrictions consists of amounts for which the time restriction expired during the period and accordingly, could be reclassified to unrestricted net assets.

NOTE D - PROMISES TO GIVE

Promises to give consist of the following:

	2005	2004
Salt Lake County	\$8,380,352	\$7,919,895
Salt Lake City	116,698	100,449
	<u>\$8,497,050</u>	<u>\$8,020,344</u>

All promises to give are unconditional and are due in the following fiscal year. Uncollectible promises are expected to be insignificant.

Salt Lake Legal Defender Association

NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

NOTE E - FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following:

	<u>2005</u>	<u>2004</u>
Furniture and equipment, at cost	\$1,333,459	\$1,244,515
Accumulated depreciation	<u>983,529</u>	<u>1,001,829</u>
	<u>\$ 349,930</u>	<u>\$ 242,686</u>

NOTE F - COMMITMENTS

The Association leases office and storage space under operating leases. The following is a schedule by year of minimum rental payments under such operating leases which expire at various dates through 2008.

<u>Year ending December 31,</u>	
2006	\$ 491,014
2007	506,490
2008	<u>167,220</u>
	<u>\$1,164,724</u>

The Association incurred rental expense for the year ended December 31, 2005 of \$509,002 (\$508,609 in 2004).

The Association is self-insured for health and dental costs starting September 1, 1993. The Association has procured "stop-loss" insurance coverage for certain specified individual claims over \$30,000. The "stop-loss" coverage also covers total claims paid by the Association exceeding \$84,497 (which fluctuates by enrollment) in any one month period or exceeding a total of \$1,013,964 at any time during the entire year. Estimated self-insurance liability is based upon a review by the Association and an independent insurance broker of claims filed and claims incurred but not reported. \$56,717 has been accrued as of December 31, 2005 (\$46,498 in 2004). Total self-insurance expense was \$773,198 in 2005 (\$702,937 in 2004).

Salt Lake Legal Defender Association

NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

NOTE G – RETIREMENT PLANS

Effective January 1, 1999, the Association maintains a profit-sharing plan which covers substantially all full-time employees who have completed one year of qualified service. Contributions to the profit-sharing plan are discretionary as determined by the Board of Directors. The profit-sharing contribution for the year ended December 31, 2005 was \$174,805 (\$173,400 in 2004). The profit-sharing plan also includes a provision under which eligible employees may defer up to 15% of their annual compensation, pursuant to Section 401(k) of the Internal Revenue Code. The Association matches employee contributions on a discretionary basis. Association matching contributions to the 401(k) portion of the plan were \$370,767 for the year ended December 31, 2005 (\$327,903 in 2004).

REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS

Hansen, Bradshaw, Malmrose & Erickson

A Professional Corporation

CERTIFIED PUBLIC ACCOUNTANTS

559 West 500 South

Bountiful, Utah 84010

801-296-0200

Fax 801-296-1218

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS IN INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Lynn Hansen, CPA
Clarke R. Bradshaw, CPA
Gary E. Malmrose, CPA
Edwin L. Erickson, CPA
Michael L. Smith, CPA

Jason L. Tanner, CPA
Robert D. Wood, CPA

Members of the
American Institute
of Certified Public
Accountants

Members of the
Private Company
Practice Section

Board of Directors
Salt Lake Legal Defender Association

We have audited the financial statements of Salt Lake Legal Defender Association (a nonprofit organization), as of and for the year ended December 31, 2005, and have issued our report thereon dated June 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Salt Lake Legal Defender Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Salt Lake Legal Defender Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Hansen, Bradshaw, Malmrose & Erickson, P.C.

June 8, 2006